HANDBOOK 19 FINANCIAL MANAGEMENT

CHAPTER 2 - OBLIGATION PROCEDURES

Table Of Contents

2A. Purpose 5

2B. Responsibilities 5

2C. Obligation Documentation 6

2D. Avoiding Overobligation of Funds 6

2E. Funding of Obligations Beyond Current Fiscal Year 7

2F. Obligation Procedures -Operating-Type Expenses 8

2G. Obligation Procedures -Project Assistance 14

2H. Obligation Procedures -Nonproject Assistance (Loan/Grant) 17

2I. Obligation Procedures -Others 19

2J. Budget Allowance Increases to Cover Valid Upward Adjustments of Obligations 21

2K. Obligations During Periods of a Continuing Resolution 23

2L. Administrative Reservation of Funds 23

2M. Review of Unliquidated Balances of Obligations 24

2N. (Recoveries Deobligations) and (Reobligations DEOBS/REOBS) 25

2O. Liquidation and Deobligation 25

2P. Reporting Under Section 1311 of Supplemental Appropriation Act of 1954 [31 U.S.C. 1501] 26

Attachment 2A: Miscellaneous Obligation Document 26

Attachment 2B: 26

CDT: 1977/08/02
EDT: 1987/03/26

CHAPTER 2

OBLIGATION PROCEDURES

TABLE OF CONTENTS

2A. Purpose

2B. Responsibilities
- 1. Officials Authorized to Incur Obligations
- 2. Controllers

2C. Obligation Documentation

2D. Avoiding Overobligation of Funds

2E. Funding of Obligations Beyond Current Fiscal Year
- 1. Program Funds
- 2. Operating Expense Funds
- 3. Participating Agency Service Agreement (PASA's), Form AID 1-1 or Resource Support Service Agreements (RSSA's), Form AID 240-2

2F. Obligation Procedures -Operating-Type Expenses
- 1. Recording Obligations
  - a. Pay and Allowances -AID Direct-Hire U.S. Employees
  - b. Pay and Allowances -AID Direct-Hire Local and Third-Country National Employees
  - c. Travel by U.S. Government Employees
    - (1) Prevalidation of Charges
    - (2) Recording Travel Obligations
  - d. Transportation of Things
  - e. Communication Services, Rents, and Other Utility Services
  - f. Goods and Services Furnished under Contract
    - (1) Firm Fixed-Price Contracts
    - (2) Open-End Contracts
    - (3) Contracts Authorizing Variations in Quantities.
    - (4) Cost-Reimbursement Contracts (cost-plus-fixed fee, cost, cost-sharing, etc.)
    - (5) Combined Types of Contracts
    - (6) Termination of Contracts for the Convenience of the Government
  - g. Goods and Services Furnished under Purchase Orders SF 147 and AID 5-7)
  - h. Administrative-Type Costs Incurred by Other U.S. Government Agencies
  - i. Use of the Miscellaneous Obligation Document (MOD)
- 2. Deobligations and Upward Adjustments
  - a. Deobligations
  - b. Upward Adjustments (1) Policy (2) Procedures

2G. Obligation Procedures -Project Assistance
- 1. Definition
- 2. Authorizing Project Assistance
- 3. Recording Project Assistance Obligations
  - a. General
  - b. Bilateral Projects
    - (1) Project Agreement

(a) Execution of Project Agreement
(b) Impact of Implementation Conditions Precedent in the Project Assistance Agreement
(c) Obligation of Dollar Funds or Appropriations for Local Costs
(2) Project Implementation Order/Participants (PIO/P), Form AID 1380-1, as an Obligating Document
c. Unilateral Projects
4. Deobligations and Upward Adjustments
a. Deobligations
b. Upward Adjustments
(1) Project Agreements (Loan/Grant)
(2) Contracts Funded Outside of Project Agreements.
(3) Grant and Cooperative Agreements Funded Outside of Project Agreements

2H. Obligation Procedures -Nonproject Assistance (Loan/Grant)
1. Definition
2. Authorization
3. Recording Obligations
a. Nonproject Assistance Agreements
b. Unilateral Nonproject Grant (See HB 1, Supp. B, Ch. 25E & HB 13, Chapter 1)
4. Adjustments and Amendments
5. Deobligations (Closings)

2I. Obligation Procedures -Others
1. Scope and Definition
a. Foreign Disaster Assistance
b. Country-Financed Technical Services
c. Master Disbursing Account
d. Gifts and Donations
2. Authorization
a. Foreign Disaster Assistance
b. Country-Financed Technical Services
c. Master Disbursing Account
d. Gifts and Donations
3. Recording Obligation
a. Foreign Disaster Assistance
b. Country-Funded Technical Services
c. Master Disbursing Account
d. Gifts and Donations

2J. Budget Allowance Increases to Cover Valid Upward Adjustments of Obligations
1. Prior Year Funds
2. Current Year Funds

2K. Obligations During Periods of a Continuing Resolution

2L. Administrative Reservations of Funds
1. Recording
2. Status at End of Fiscal Year

2M. Review of Unliquidated Balances of Obligations

2N. Recoveries (Deobligations) and Reobligations (DEOBS/REOBS)
1. Current Year Funds
2. Prior Year Funds

2O. Liquidation and Deobligation
1. Liquidation by Expenditure or Disbursement
2. Liquidation Record

2P. Reporting Under Section 1311 of Supplemental Appropriation Act of 1954 [31 U.S.C. 1501]
Attachment 2A -Miscellaneous Obligation Document
Attachment 2B -Commitment Liquidation/Control Record

CDT: 1977/08/02
EDT: 1987/03/26

2A. Purpose

The procedures prescribed herein supplement AID's Fund Control Regulations set forth in Appendix 1A of Chapter 1 of this Handbook.

Obligation procedures are prescribed for each major category of AID activities, i.e., operating expenses, project assistance, non-project assistance, and others.

CDT: 1977/08/02
EDT: 1987/03/26

2B. Responsibilities

1. Officials Authorized to Incur Obligations

Only persons who have been delegated authority in writing by the Administrator of AID or persons to whom such authority has been properly redelegated can incur obligations and sign obligating documents on behalf of AID.

Officials authorized to incur obligations are responsible for ensuring that the obligation conforms to the applicable regulatory requirements and is within the legal limitations of the appropriation funding the transaction, and that the obligation document is routed to the appropriate accounting office for prevalidation prior to its release to a supplier, a borrower/grantee, a traveler, contractor, U.S. participating agency, or other third party.

Any obligation that results in a violation of the Revised Statute 3679 (The Anti-Deficiency Act [31 U.S.C. 1517]) must be reported by the AID Administrator to the President and to the Congress. Officers authorized to obligate AID funds and employees dealing with the obligation of AID funds are required to be familiar with the regulations governing the administrative control of funds as provided in Appendix 1A of Chapter 1 of this Handbook.

2. Controllers

Under the technical guidance of the Agency Controller, the Office of Financial Management in AID/W and USAID controllers at field installations are responsible for devising, implementing, and maintaining a comprehensive system for the control of obligations against budget allowances. This system includes but is not limited to techniques for:

a. Assuring all obligations are prevalidated against budget allowance and accounting records before the related obligating documents are released.

b. Maintaining liquidated and unliquidated obligation files.

c. Establishing records for each obligation during liquidation to reflect disbursements and prevent overobligation or over expenditure against underlying budget allowances.

d. Subjecting all obligations to a continuous and comprehensive review process within the requirements of Section 1311 of the Supplemental Appropriations Act, 1955 [31 U.S.C. 1501].

e. Certifying for AID that the annual statement of obligations submitted each year to the Office of Management and Budget consists of valid obligations as defined in 31 U.S.C. 1501.

CDT: 1977/08/02
EDT: 1987/03/26

2C. Obligation Documentation

1. Section 1311 of the Supplemental Appropriations Act, 1955, [31 U.S.C. 1501] provides that an amount shall be recorded as an obligation only when supported by documentary evidence showing that:

a. A valid and binding agreement in writing and for a purpose authorized by law has been executed before the expiration of fund availability.

b. A loan agreement showing the amount and terms of repayment has been executed.

c. An order required by law has been placed with an agency.

d. An order has been issued under a law authorizing purchases without advertising, (1) when necessary because of a public exigency, (2) for perishable subsistence supplies, or (3) within specific monetary limits.

e. A grant or cooperative agreement authorized by law has been executed.

f. A liability may result from pending litigation.

g. A notification of employment or services of persons or authorization for travel has been issued.

h. A contract/agreement for services provided by public utilities has been executed.

i. Other legal liability of the Government against an available appropriation or fund has incurred.

2. AID uses a number of special purpose forms as obligation documents, dependent upon the activity category. The activity categories and documentation are described in Sections 2F, 2G, 2H, and 21 below.

3. Special agreements or other documents, which do not meet the obligation criteria of this chapter, are handled on a case-by-case basis insofar as their status as an obligation is concerned. Each such transaction can only be considered as an obligation after approval by Offices of the General Counsel and Financial Management.

CDT: 1977/08/02
EDT: 1987/03/26

2D. Avoiding Overobligation of Funds

1. All documents representing obligation transactions must be directed to the Office of Financial Management in AID/W or the USAID accounting office, where the budget allowance accounts are maintained, for prevalidation for availability of funds and recordation in the accounting records prior to release to a supplier, borrower/grantee, a traveler, contractor, U.S. participating agency, or other third party. Upon determination of availability of funds, such documents are recorded in the accounting records and are annotated to show "Funds Available." Where sufficient funds are not available to cover the proposed transaction, the office that initiated the action is advised immediately and the document returned to the office.

2. Documents representing administrative reservations (see Section 2L below) are processed and sent to the office where the accounts are maintained for confirmation of fund availability before release to the AID office or other U.S. Government agency which is to issue the obligation document. All such documents are recorded in the accounting records and the documents are annotated to show "Administrative Reservations Recorded" with the signature of the individual who records the administrative reservation of funds.

CDT: 1977/08/02
EDT: 1987/03/26

2E. Funding of Obligations Beyond Current Fiscal Year

1. Program Funds

Section 635(h) of the Foreign Assistance Act of 1961, (the FAA), as amended provides that a contract or agreement may subject to any future action of the Congress extend at any time for not more than five years. It is AID's policy to obligate funds for requirements that will be implemented within a reasonable period of time. Officers having authority to obligate funds follow the AID/W guidelines on the maximum forward funding authorized that are generally issued annually as part of AID/W program instructions.

2. Operating Expense Funds

Funding of obligations under operating expense funds beyond the end of the current fiscal year may be made subject to review for bona fide needs and adherence to the "Advance Procurement Plan."

3. Participating Agency Service Agreements (PASA's), Form AID 2-2 or Resource Support Service Agreements (RSSA's), Form AID 240-2

PASA's and RSSA's issued pursuant to Section 632(b) of the FAA are valid obligations, if otherwise proper, under Section 1311 regardless of whether there is an underlying agreement with a foreign government or international organization for the furnishing of services of U.S. Government personnel. Such PASA's and RSSA's not covered by a project agreement may obligate funds for the services of non-AID U.S. Government personnel beyond a current fiscal year in the same manner that a contract obligates funds for the services of contractor employees, i.e., for the term of the appointment or duration of the project, and need not be restricted to a month-to-month or fiscal year basis.

CDT: 1977/08/02
EDT: 1987/03/26

2F. Obligation Procedures -Operating-Type Expenses

1. Recording Obligations

The following procedures regarding operating-type (i.e., administrative-type) obligations supplement the obligation concepts and legal requirements contained in Chapter 1 of this Handbook.

a. Pay and Allowances -AID Direct-Hire U.S. Employees

(1) Payments for salaries and those allowances subject to U.S. Federal income taxes for U.S. citizens employed directly by AID are made by the Central Payroll Office, M/FM, in AID/W. The specific "U.S. salaries and allowances" processed by the Central Payroll Office are:

(a) Gross salaries, including overtime, holiday pay and all other premium payments.

(b) Post differential allowances.

(c) Employers' contributions for FICA, retirement, and life and health insurance.

(d) Lump sum final payments for unused annual leave and severance pay.

(2) Obligations for the above costs are established on a monthly basis in AID/W as follows: Promptly following preparation of the last regular payroll to be paid during each month, the amount thereof is divided by 10 to determine the rate per day. The daily rate is multiplied by the number of workdays plus U.S. holidays between the date covered by the last payroll and the end of the month. The amount derived from this computation represents the accrued liability for centrally payrolled U.S. salaries and allowances. The standard practice of recording the accrual as an expenditure and reversing the accrual entry as of the first of the succeeding month is followed. As a result of this procedure, monthly obligations are the sum of payments made during the month, plus the month-end accrual, minus the accrual of the preceding month.

(3) Obligation and payment of non-taxable allowances applicable to AID direct-hire U.S. employees overseas are made by USAID, except as specifically authorized otherwise. These may include the following, among others:

(a) Quarters and temporary lodging allowances.

(b) Education allowances.

(c) Cost of living allowances.

(d) Transfer allowances.

(e) Separate maintenance allowances.

(4) The costs listed in paragraph 2F1a(3) above are initially obligated on the basis of the approved SF 1190. Continuing benefits such as quarters and cost of living allowances are obligated on a monthly basis by each USAID controller based on the USAID's payments for these costs during the prior month and first hand information of the entitlements of each new and departing U.S. employee at the USAID.

b. Pay and Allowances -AID Direct-Hire Local and Third Country National Employees

Obligations for salaries and fringe benefit costs of local and third country nationals, which are payable as Operating Expenses or charged to local trust funds are established monthly by each USAID controller in the same manner as outlined in paragraph 2F1a(2) above. Special care is taken to include estimates for retirement, insurance, and severance costs peculiar to each country, as applicable.

c. Travel by U.S. Government Employees

(1) Prevalidation of Charges

A Request and Authorization of Official Travel, form AID 5-8 (hereinafter referred to as a travel order), is released by AID/W or USAIDs only after prevalidation by the accounting office maintaining the budget allowance account to be charged. To assure that prevalidation has been accomplished, when AID/W issues a travel order chargeable to a USAID account or when a USAID issues a travel order chargeable to a budget allowance account maintained by another USAID or AID/W, the following technique is employed:

(a) The accounting office of the USAID maintaining the budget allowance account to which the cost of the travel is being charged establishes an administrative reservation for the total estimated official charges for travel, transportation, and any storage of effects for the employee and dependents, accompanying or to follow, at the time USAID secures country clearance for the incoming employee.

(b) Simultaneously with telegram notification of country clearance, the receiving USAID office or mission informs AID/W or the sending USAID office/mission that an administrative reservation for estimated travel costs, etc., has been made.

(c) The issuing officer does not release the travel order until confirmation of fund availability is received from the accounting office of AID/W or the USAID maintaining the accounts chargeable.

(d) Immediately upon release of the travel order, the issuing officer forwards a copy to the accounting office whose accounts are charged.

(e) Upon receipt of the copy of the travel order, the chargeable accounting office records the obligation in the usual manner.

(2) Recording Travel Obligations

(a) Prior to release of a travel order, the responsible AID/W or USAID officer approving the travel obtains or prepares an estimate of the costs for each element of travel, transportation, and (if appropriate) storage charges, and includes this information on the travel order.

(b) Establishment of administrative reservations and obligations based upon estimated travel and related charges by a USAID seldom assures obligation of exact requirements. Consequently, AID/W and USAID accounting offices periodically review and analyze unpaid travel obligations in the light of current supporting information such as cost of travel already performed, amendments to travel orders, receipt of bills of lading, changes in transportation and travel costs, etc. Administrative reservations and obligations for travel and related costs are revised on the basis of any new data revealed by such analyses.

(c) Blanket travel orders may be issued for in-country travel in a foreign country when it is administratively determined that it is not practical to issue individual travel orders for each trip. Such blanket travel orders are not to cover a period beyond the end of the current fiscal year. At year end, that portion of obligations covered by blanket travel orders for which travel has not been performed and per diem has not been earned is eliminated from the obligation.

(d) Travel orders are recorded as obligations in the month issued provided actual travel begins, or first expense under the travel order is incurred within that month. If travel is to begin in a subsequent month, an administrative reservation may be recorded until such time as travel commences or first expense is incurred at which time the obligation is recorded and the administrative reservation is cancelled. Travel of USAID and AID/W personnel beginning in one fiscal year and terminating in a subsequent fiscal year is obligated in the fiscal year in which travel begins or official expense incident to such travel is incurred. In order for travel and transportation expenses to be charged to the appropriation of a particular fiscal year, such travel must begin during that particular year, although it may be completed in the succeeding fiscal year. In those cases where a single travel order authorizes both travel of the employee and transportation of employee's effects, the occurrence of one of the following actions is sufficient to permit the obligation of funds for both types of costs.

(1) The employee and/or dependent covered by the travel order must actually be in travel status prior to midnight on September 30. Issuance of a travel order and/or purchase of a ticket are not, in themselves, sufficient.

(2) A transportation expense (for movement of effects) which includes any expense incidental thereto must be incurred prior to midnight on September 30. Expenses incidental to transportation include charges for packing of personal effects and household effects at employee's residence, or for drayage of such effects to a warehouse for packing or temporary storage or to a terminal for shipment. From the copy of travel order received in the accounting office, entry is made in the "Obligations Incurred" column of the budget allowance account under the appropriation cited in the travel order for the estimated costs of per diem, transportation, shipment and/or storage of household effects, shipment of privately owned automobile, and miscellaneous expenses.

(3) Storage of effects of transferred employees is authorized, within certain limitations, by the Foreign Assistance Act. Section 162 of 6 FAM 100 lists maximum shipping and storage allowances. Storage costs incurred during the employee's first assignment to the USAID are chargeable to the fiscal year in which the first official expense is incurred under the travel order.

When an employee is to continue his/her assignment (i.e., no home leave or transfer orders are involved) at the USAID for a period beyond that originally contemplated in the travel order covering his/her assignment to the post, storage charges, if any, are obligated for the additional storage period against the appropriation current at the time the extension is authorized. An MOD (see Section 2F1i below) supported by a copy of the telegram or other authority is used as an obligating document in this case. At the time an employee is authorized home leave, transfer, or separation travel, the appropriate issuing officer includes in the travel order an authorization for payment of storage costs, if any, for the additional period during which continuance of storage is chargeable to the appropriation current at the time the first travel expense is incurred under the home leave, transfer, or separation travel order.

d. Transportation of Things

U.S. Government bills of lading, contracts, or purchase orders constitute the obligation document for transportation of things, except shipment of employee's household effects or a privately owned automobile for which the travel order is the obligating document.

e. Communication Services, Rents, and Other Utility Services

(1) Obligations for communications, rents, and utilities are established on a quarterly basis. In those cases where monthly bills are rendered for a period beginning in one month and

ending in a following month, the services received subsequent to the latest billing date need not be included for obligation and accrued expenditure purposes if such amounts are relatively small. However, if the accrued expenditure for communication and utility services performed during the portion of the month between the end of the billing period and the end of the month is material, provision is made for recording such obligations and accrued expenditures accordingly. At the beginning of the fiscal year, administrative reservations covering the estimated costs of these services for the entire period may be recorded. As actual obligations are recorded each quarter, the administrative reservation is correspondingly reduced.

(2) In the case of postage, the cost of stamps or metered postage purchased during the month is established as an obligation and an accrued expenditure. In AID/W an obligation and an accrued expenditure are also established for the amount owed for penalty mail used during the reporting period.

(3) Contracts involving recurring services (such as rent) are recorded quarterly as obligations and accrued expenditures as the services are received or performed, even though the total amount of the contract is definite. Exceptions to this general rule are: (a) rental space furnished by the General Services Administration on the basis of standard level user charges (SLUC) and (b) ADP equipment leased on a contractual basis without a purchase option. In the case of GSA rental space, the amount of SLUC payments owed (both earned and advanced) on the basis of bills rendered by GSA pursuant to regulation is recorded. With respect to leasing ADP equipment on a contractual basis without a purchase option, obligations are incurred when contracts are consummated, not as services are rendered. For fixed-term contracts, the total amount of the contract is recorded. For contracts with renewal options, the amount required to cover the basic period and any penalty charges for failure to exercise options are recorded.

f. Goods and Services Furnished Under Contract

The following criteria are generally applied in recording obligations for contract goods and services, other than those specified above, when such goods and services are to be procured with either operating expense funds or program funds not obligated by arrangement or agreement with the cooperating government.

(1) Firm Fixed-Price Contracts

Obligations are recorded for the total amount of firm fixed-price contracts at the time the contract is signed.

(2) Open-End Contracts

When the quantity of goods or services required under a contract is indefinite and is determined by subsequent orders not requiring acceptance by the contractor, such orders placed pursuant to the contract within the time period specified in the contract are recorded as obligations in the amount stated in the order upon placement of such order. When such contracts or agreements require acceptance of an order by the contractor, the amount of such order is recorded as an obligation upon acceptance of the order.

(3) Contracts Authorizing Variations in Quantities

Obligations are recorded for the price of the quantity anticipated to be delivered and accepted based on the best information available.

(4) Cost-Reimbursement Contracts (cost-plus-fixed fee, cost, cost-sharing, etc.)

Obligations for cost-reimbursement contracts are recorded for the amount of the total estimated cost or payments shown or provided for in the contract, but not in excess of the maximum current liability shown, including the fixed fee in the case of cost-plus-fixed-fee contracts.

(5) Combined Types of Contracts

Contracts may contain one or more of the types of obligation described above. In such cases the total amount to be recorded as an obligation is the sum of amounts arrived at as appropriate for each of the various types.

(6) Termination of Contracts for the Convenience of the Government

When a contract is terminated in whole or in part for the convenience of the Government by giving a Notice of Termination to the other party, such contract is decreased in an amount which results in an outstanding obligation sufficient to meet the settlement costs under such contract.

g. Goods and Services Furnished Under Purchase Orders (SF 147 and AID 530-1)

Purchase orders constitute the obligation document for the procurement of goods or services not being obtained pursuant to an executed contract or agreement. The obligation is established prior to release of the purchase order to the supplier in the amount stated on the purchase order. This also applies to purchases made from GSA from the Stores Stock Catalog.

h. Administrative-Type Costs Incurred by Other U.S. Government Agencies

Obligations for domestic services performed under general agreements with other U.S. Government agencies covering administrative and program backstopping costs are recorded monthly on the basis of a pro rata distribution of the amount of the agreed-to budget as indicated in writing, subject to adjustment at the close of the fiscal year. Differences between the amounts initially obligated by AID/W and the amounts claimed by the participating agency at the end of the fiscal year must be adjusted to assure proper certification of obligations as required by 31 U.S.C. 1501(b).

i. Use of the Miscellaneous Obligation Document (MOD)

The Miscellaneous Obligation Document (MOD), form AID 7-7 (see Attachment 2A), is used to identify and provide factual information underlying certain existing valid obligations and for use in recording such obligations in the official AID accounting records. The MOD is used for the following representative types of transactions:

(1) Obligations of a recurring and/or continuing nature, such as salaries and public utilities services, which are recorded in the official accounts on a periodic basis pending receipt of formal payment documents;

(2) Occasionally, the valid obligation document may be of a classified nature and therefore, may not be filed in the open unliquidated obligation files. In such cases, pertinent accounting data may be abstracted to an MOD and cross-referenced to the obligation document in the classified files;

(3) Obligations for long-term commitments, which are, recorded in the official accounts on a periodic basis, e.g., multiyear rental and lease agreements. In these cases, the basic obligation document is maintained in the accounting files and the MOD is used as the posting medium to record the amount of the accrual as an obligation for each period (monthly or quarterly) as a separate entry in the official accounting records.

2. Deobligations and Upward Adjustments

a. Deobligations

Accounting personnel maintain active surveillance of each obligating document to assure that funds obligated therein are required for liquidation (disbursement). Periodic review of unliquidated balances of obligations should be conducted in accordance with Section 2M below. Any excess funds should be deobligated promptly in accordance with Section 2O below.

b. Upward Adjustments

(1) Policy

(a) An upward adjustment of an obligation is never made to cover the cost of additional goods or services or higher quality goods or services, which were not, contemplated when the obligation was incurred. Paragraph 2J2b below describes procedures for processing proposed adjustments for additional and/or higher quality goods or services.

(b) An upward adjustment of an obligation for the additional cost of goods or services, which were, contemplated when the obligation was incurred is authorized to the extent that there is genuine need for the increase, and appropriate approval has been received.

(c) Obligations for travel orders, purchase orders, etc., are recorded on the basis of an estimate of the amount required to pay for the specified service. The U.S. Government, in effect, agrees to pay for specified goods and/or services and, where the exact cost of these goods and/or services is not known in advance, a monetary estimate of the amount involved is inserted in the obligation document. If the actual cost exceeds the estimate, an upward adjustment of the obligation is appropriate from the original funding source.

(d) Upward adjustments of obligations under contracts may be made in accordance with the following guidelines:

1/ Cost Reimbursable Contracts. As a general rule, cost overruns arising from the terms, and within the scope, of the original contract may be funded from the appropriation available in the year the contract was executed. Current year funds, however, must be used if additional costs are incurred due to expansion of scope in the contract amendment. The original contract ceiling amount must be increased by executing an amendment for payment to be made in excess of the original contract amount.

2/ Fixed Priced Contracts. Upward adjustments of fixed priced contracts using prior year funds are generally not authorized. However, contract amendments based on the finalization of change orders that have been issued within the scope of the contract or based on termination settlements may be authorized, setting forth the legal basis for the change. Increased costs as a result of change orders are funded from current year funds.

3/ Other Types of Contracts. Upward adjustments of contracts, which have fixed price and cost reimbursement elements, may be upward adjusted for only the cost reimbursement elements so long as the basic rules on upward adjustments have been satisfied.

(2) Procedure

(a) When it becomes apparent that the amount obligated must be increased, due to an underestimation of the original cost prior to the time of making payment, the increase is recorded from an adjusting document on which is shown 1) the reason for the increase, 2) a notation to the effect that "Increase due to revision of estimated obligation, no additional procurement authorized," and 3) the name of the person authorizing the "Upward Adjustment."

(b) Adjustment documents are not needed to increase the amount of obligations as provided in Section 2F2b(1)(c) above within the percentage limitation provided below. These adjustments are recorded in the accounts automatically by the automated accounting system. The obligation document is noted to the effect that it was paid in the amount of (the amount of the payment).

For obligations $0.01 to $100.00, a 300% maximum adjustment. For obligations $100.01 to $1,000.00, a 150% maximum adjustment For obligations $1,000.01 and up, a 15% maximum adjustment

CDT: 1977/08/02
EDT: 1987/03/26

2G. Obligation Procedures -Project Assistance

1. Definition

A development project is defined as the total, discrete endeavor to create, through the provision of personnel, equipment and/or capital funds, a finite result directly related to a discrete development problem. Modes, or means of delivery of project assistance, include all loans and grants for AID development projects, P.L. 480 Title II, housing investment and other AID guarantees, research grants, institutional development grants including grants or loans to intermediaries (such as voluntary agencies) to conduct projects, self-help, projectized sectorial assistance, certain level-of-effort contracts, and similar vehicles of assistance.

2. Authorizing Project Assistance

a. AID policy requires the formal approval of Project Assistance before AID funds are obligated pursuant to the project agreement. The approval document is the Project Authorization, which sets forth the terms and conditions governing the negotiation and conclusion of the project agreement. See Chapter 5 of Handbook 3.

b. Project Authorizations serve as a basis for the monitoring by M/FM of the obligation of AID funds to assure consistency with the requirements of the project and such other factors as may be appropriate for fund control purposes. The Project Accounting Information System (PAIS) is used to monitor fund requirements. See Chapters 8 and 9 of this Handbook.

3. Recording Project Assistance Obligations

a. General

Project assistance funds are obligated by either a project agreement or other contractual arrangements depending on whether the project is bilateral (multi-lateral) or unilateral with a cooperating government.

b. Bilateral Projects

For bilateral projects, the project agreement is normally the document used to record an obligation in the appropriate fund account. Funds are deobligated when it is clear that the amounts obligated by the project agreement exceed the amounts required to finance the AID assistance contemplated in the agreement.

(1) Project Agreement

(a) Execution of Project Agreements

A project agreement may take a standard format or other specialized format prescribed by appropriate authority in coordination with the AID/W Office of the General Counsel (GC) for the purpose involved. The project agreement is executed by authorized AID officials and by authorized officials of the host governments or by other aid recipients. The project agreement is recorded as an obligation in the official accounts of the Agency upon receipt of a signed copy of the agreement. In those instances where an agreement is signed in a location away from the accounting station, the obligation is recorded upon receipt of satisfactory evidence (e.g., cable, etc.) that an agreement has been signed. Thereafter the accounting station secures a signed copy of the agreement.

1/ The project agreement is a document, normally bilateral but sometimes executed by more than two parties, which provides a written understanding between or among the parties as to the responsibilities for and timing of actions with respect to a given project. The agreement represents the results of the planning and approval processes; establishes the framework of rules for implementation; and permits the formal start of implementation of the project. It reflects the commitments agreed upon by the parties to fulfill the stated goals, purposes and targets of the project.

2/ The project agreement when signed by AID and the borrower/grantee obligates the United States to furnish up to a specified amount of assistance and clearly sets forth the terms and conditions under which such assistance is to be furnished, including undertakings or covenants made by the recipient country relative to the project. The project agreement provides funds for all project costs except AID direct-hire costs and related international travel.

3/ The project agreement presents a meaningful, informative summary of the total project as a guide to its implementation. The agreement indicates what is to be accomplished by the time the project is completed: what the end-of-project status ought to be and what outputs are to be achieved. The agreement requires inclusion of a financial plan, which will show each party's contributions to the Project. These amounts are broken down by "Project Input" and by the time period in which each contributor agrees to provide resources for the project.

4/ The project agreement may be funded for the life of the project or on an incremental basis. Annual project agreements are not required for incrementally funded projects. Additional increments are normally added by simple amendments of the original agreement, which suffice to obligate subsequent years funds.

(b) Impact of Implementation Conditions Precedent in the Project Agreement

A firm obligation is incurred upon the execution of a project agreement. Failure of the borrower/grantee to comply with certain implementation conditions within the time specified in the agreement may invalidate the obligation. An example is a condition precedent to the disbursement of funds. Conditions precedent are limited generally to those without which the project should not go forward. The effect of each such failure is determined on a case-by-case basis by the responsible Geographic Bureau with the concurrence of GC.

(c) Obligation of Dollar Funds or Appropriations for Local Costs

Where AID is financing the local costs of Project Assistance, local currency requirements are included in the total amount of the AID fund or appropriation obligated by the project agreement. Local currency disbursements for goods and services procured from local sources are charged in dollar equivalents in the normal manner to the dollar fund or appropriation obligated by the agreement.

(2) Project Implementation Order/Participants (PIO/P), Form AID 1380-1, as an Obligating Document

In exceptional cases where the standard project agreement is not used, the PIO/P, if countersigned by the Borrower/Grantee is considered the project agreement, and therefore is used as the obligating document.

c. Unilateral Projects

For unilateral projects, Project Implementation Orders will be issued with or following project authorization. The PIO, serving as the documentation of AID-financed Project Inputs under a unilateral project, is used to record a reservation. Actual obligation of funds will be recorded when procurement documents are issued, e.g.; contracts, purchase orders, grants and cooperative agreements, etc.

A grant agreement is a legal instrument that creates a relationship between the Federal Government and a recipient, the principal purpose of which is the transfer of money or anything of value to the recipient to accomplish a purpose of support or stimulation authorized by Federal statute. A cooperative agreement is used when substantial involvement is anticipated between the Federal Government and the recipient during the performance of a contemplated activity. Grants and cooperative agreements are distinguished from contracts, the principal purpose of which is to acquire property or services. See Handbook 1, Supplement B, Chapter 25; and Handbook 13.

4. Deobligations and Upward Adjustments

a. Deobligations

Accounting personnel maintain active surveillance of each project agreement to assure that the funds obligated therein are required to accomplish the goals as stated in the agreement. Deobligations of project funds are accomplished in accordance with paragraphs 2M2c and 2M2d of this Chapter.

b. Upward Adjustments

(1) Project Agreements (Loan/Grant)

With respect to obligations evidenced by a project agreement, it should be noted that cost increases which would result in exceeding the total amount of the project agreement may not ordinarily be treated as upward adjustments since the total amount set forth in the project agreement is the maximum monetary contribution the United States is obligated to make. In other words, the United States does not obligate itself to provide all goods and services contemplated in the project agreement regardless of cost, but rather to provide such goods and services up to the limits of the sum of money specified in the agreement. The "Upward Adjustment" technique is not normally used to increase the total amount of a project agreement even though it later develops that additional services or materials are required to complete the project. Costs for such items should be provided for in an amended project agreement with funding either (a) against current year AID budget allowances or (b) by the borrower/grantee. In cases where there is a terminating project with no further funding increments proposed and there is a direct AID contract which otherwise would qualify for an upward adjustment, the project agreement may be upward adjusted unilaterally and the contract amended using prior year deobligated funds.

(2) Contracts Funded Outside of Project Agreements

The same guidelines as provided in 2F2b(1)(d) above should be followed.

(3) Grant and Cooperative Agreements Funded Outside of Project Agreements

In AID practice, a grant or cooperative agreement is for reimbursement of costs related to a project or activity described in the agreement up to the total amount of the award. Generally, any cost increase above the total amount of the initial award (assuming it is fully funded) should be funded with current appropriations. However, an upward adjustment in a "provisional overhead rate" contained in a grant or cooperative agreement does not constitute an additional award. Therefore, any cost over the original award of grant or cooperative agreement resulting from the overhead rate adjustment may be funded from the prior year appropriation that funded the grant or cooperative agreement [48 Comp. Gen. 186 (1968)]. Also an upward adjustment may be funded from prior year appropriations if it reflects increased costs authorized or approved under the terms of the agreement for which there was a genuine need within the scope of the project or activity contemplated when the obligation was incurred.

CDT: 1977/08/02
EDT: 1987/03/26

2H. Obligation Procedures -Nonproject Assistance (Loan/Grant)

1. Definition

a. Nonproject assistance is the transfer of resources (commodities, dollars or local currency) through loans or grants to cooperating governments when required resources are provided by means other than projects. (See Handbook 1, AID Policy, Part V for AID policies and procedures on the use of project versus nonproject assistance.)

b. Generally, nonproject assistance is a mechanism for providing short-term relief from constraints on the economy of a less developed country; whereas project assistance is designed to effect a long-term change in the conditions of a target population. Nonproject assistance is often directed to alleviating budgetary or balance-of-payments problems.

2. Authorization

Nonproject assistance is authorized by the Program Assistance Approval Document (PAAD), form AID 1120-1. The PAAD specifies the recipient country; the total amount, and the amount approved for obligation if less than the total amount, the source of funds, the type of funding, i.e., loan or grant, specific commodity categories approved for financing; authorized source countries for procurement; methods of financing; and the principal terms and conditions applicable to the furnishing of the assistance. It is accompanied by a narrative supporting analysis including detailed description and justification of the proposed activity. The PAAD is approved either within an approved planning level in the Operational Year Budget (OYB) or by authority competent to change the approved planning level. Approved PAAD's are recorded as administrative reservations. Administrative reservations do not reduce AID's fund availability, and these amounts are not included in AID's external reports.

3. Recording Obligations

a. Nonproject Assistance Agreements

(1) For Section 1311 of Supplemental Appropriation Act of 1954 [31 U.S.C. 1501] purposes the program assistance agreement is the basis for obligating funds for AID commodity and cash transfer program assistance. The primary purpose of the agreement is to record the basic substantive decisions reached by the U.S. Government and the government of the recipient country concerning the nature, purpose, amount and major conditions of the assistance being provided. The agreement is authorized by and gives effect to the related PAAD. The agreements

are essentially the same for grants and loans except that repayment provisions are included for loans.

(2) The nonproject assistance agreement is an obligating document provided: (a) it is signed by both parties, i.e., the U.S. Government and the recipient country government, (b) it specifies an amount of assistance the furnishing of which is not conditioned upon the happening of an event under AID's control, (c) it specifies the nature of the assistance, (d) it states the undertaking of the borrower/grantee in exchange for the assistance, including repayment provisions in the case of a loan, and (e) it contains a terminal disbursement date for the provision of the assistance.

(3) The nonproject assistance agreement is usually not an obligating document so long as there remains unsatisfied a substantive condition precedent as outlined in paragraph (2) above. Terminal dates for compliance with conditions precedent are frequently included in nonproject assistance agreements. Failure to comply by such date does not necessarily invalidate the agreement. The effect thereof is judged on a case-by-case basis by the GC, whose written opinion on each case is circulated to all interested parties including the concerned Geographic Bureau, M/FM, and the USAID.

(4) A nonproject assistance agreement which finances commodities provides that commodities eligible for financing will be those mutually agreed upon by the parties and specified in implementation letters or form AID 1130-1, Commodity Procurement Instructions (CPI). The agreement also provides for additions by appropriate language, such as inclusion of, "such other commodities as AID may agree in writing to finance."

(5) Although the nonproject assistance agreement is the Section 1311 obligating document, because of the lapse of time between the signing of the agreement and its subsequent reproduction and distribution to all interested offices, cable advice from USAID of signing the agreement and conditions precedent met, is used as the basis of the initial recording of the obligation in AID records. No later than three weeks following the date of agreement signing indicated in the USAID cable, M/FM is responsible for initiating a followup request for the original signed agreement from the Geographic Bureau, if it has not been received during the interim.

(6) It is desirable that the Commodity Procurement Instruction (CPI) and initial implementation letters be ready for issuance with the signing of the agreement. The validity of the agreement as an obligation is not, however, affected by the timing of the issuance of these documents.

b. Unilateral Nonproject Grant (see Handbook 1, Supplement B, Chapter 25E & Handbook 13, Chapter 1)

Grants are defined in OMB Circular A-110 and mean money or property provided in lieu of money paid or furnished by the Federal Government to recipients under programs that provide financial assistance or that provide support or stimulation to accomplish a public purpose.

It may be necessary in very rare instances for AID to make a unilateral grant of nonproject assistance. Such grants are made by a document entitled "Advice of Unilateral Grant -Nonproject Assistance." This document is an obligating document provided it (1) is signed by an authorized official of the U.S. Government, (2) specifies an amount of assistance which is not conditioned upon the happening of an event under AID's control, (3) specifies the nature of the assistance, (4) contains a terminal date for the provision of the assistance, and (5) refers to any other documents such as an exchange of letters which contain substantive conditions, restrictions, and grantee undertakings applicable to the assistance being granted.

4. Adjustments and Amendments

a. Decrease adjustments or amendments to an agreement prior to the agreement's terminal disbursement date must be agreed to by both parties except where AID has reserved the right to effect such decreases unilaterally.

Under AID Commodity Program Assistance Refund Utilization Policy, agreements must provide for AID to unilaterally decrease agreements by the amount of borrower/grantee refunds to AID whether voluntarily made or the result of AID billings.

b. Increase adjustments or amendments are rare and may be made only in situations where the initial agreement (1) was only obligated in part because the determination of compliance with conditions precedent was left to the discretion of the United States, or (2) was an "umbrella" agreement covering in general terms a contemplated program of assistance over a given period of time but obligated only a stipulated amount pending subsequent agreement to increase that amount. Such adjustments may not be made after the terminal disbursement date specified in the agreement. The source of funding for such increases is determined on a case-by-case basis by the Geographic Bureau with the advice and concurrence of M/FM giving due consideration to (1) whether the funding source is an annual or a no-year appropriation, and (2) the timing of the increase relative to the end of the fiscal year.

5. Deobligations (Closings)

M/FM provides Geographic Bureaus with advance notice of the expiration of agreement terminal disbursement dates. Upon expiration of the terminal disbursement date of the agreement, the undisbursed balance of the agreement is unilaterally reduced by M/FM. Advice of these unilateral actions is transmitted to the Geographic Bureau concerned for information and appropriate action vis-a-vis the borrower/grantee.

CDT: 1977/08/02
EDT: 1987/03/26

2I. Obligation Procedures -Others

1. Scope and Definition

Any AID activities which do not fall in the above three categories (i.e., Operating Expenses, Project Assistance, and Nonproject Assistance) are classified as "Others." This category includes, but not limited to, foreign disaster assistance, country-financed technical services, master disbursing account, and gifts and donations. Detailed accounting procedures for these activities are provided in Chapter 10 and Appendix 4A of this Handbook.

a. Foreign Disaster Assistance. A foreign disaster is an act of nature (such as a flood, drought, fire, hurricane, earthquake, volcanic eruption, or epidemic) or an act of man (such as a riot, violence, civil strife, explosion, fire, or epidemic), which is, or threatens to be, of sufficient severity and magnitude to warrant U.S. emergency relief assistance. Foreign disaster assistance includes (1) the analysis and study of disasters, (2) disaster preparedness, and (3) developing an operational plan for the disaster. (See Handbook 8.)

b. Country-Financed Technical Services. As authorized under Section 6U of the Foreign Assistance Act of 1961, as amended, AID may furnish services and commodities on an advance-of-funds or reimbursement basis to friendly countries, international organizations, the American Red Cross, and voluntary nonprofit relief agencies registered with and approved by AID. It is Agency policy that the preponderance of country-financed activities be financed on the advance-of-funds basis. Use of reimbursement methods is limited to exceptional cases in accordance with specific AID authority for each project. To carry out such activities, a Section 607 Determination approved by TDP or the appropriate AID official is required. (See Section 10I, Chapter 10 of this Handbook and 21Clc of Supplement B, Handbook 1.)

c. Master Disbursing Account. Beginning July 1, 1973, the Agency instituted an improved and simplified system for accounting for participant training program in the U.S. The system pulls all funds under the USAID issued PIO/Ps into an AID/W centralized disbursing account. The system eliminates cross disbursing by AID/W against USAID budget allowances, thereby discontinues Advice of Charge for payments against individual PIO/Ps. The system also facilitates USAIDs early liquidation and closing of project accounts. The detailed function of this account is prescribed in Section 10J, Chapter 10 of this Handbook.

d. Gifts and Donations. The principal authority used by the Agency to accept donations is Section 635(d) of the FAA, which authorizes the Agency to accept and use in furtherance of the purposes of the FAA, money, funds, property and services of any kind made available by gift, devise, bequest, grant or otherwise for such purpose. (See Appendix 4A of this Handbook.)

2. Authorization

a. Foreign Disaster Assistance. A disaster determination by a Chief of Mission or other appropriate region official, e.g. Assistant Secretary of State is a prerequisite for U.S. Government relief aid. Due to the nature and urgency of this assistance, all authorizations are exercised by cable. The Chief of Mission in the disaster stricken country has authority to obligate up to $25,000 in cash, supplies, or services to assist disaster victims. Any expenditures in excess of the $25,000 authority must be approved by Director, Office of U. S. Foreign Disaster Assistance (OFDA). (See Section 10B, Chapter 10 of this Handbook.)

b. Country-Financed Technical Services. Upon approval of the Section 607 Determination, a trust fund agreement or a reimbursement agreement can be signed between the U.S. and the friendly country. Under advance-of-funds method, obligation for the activity can be incurred only after receipt and deposit of the trust funds from the cooperating country.

c. Master Disbursing Account. USAID issued PIO/Ps based on M/FM/PAFD confirmation cable (see Section 10J, Chapter 10 of this Handbook) are the authorizations for payments of participant training costs from this account. Funds are periodically transferred to this account from USAID by means of U-101 reports (under Section E, Misc. Items Processed by the Mission.)

d. Gifts and Donations. The authority to accept donations has been redelegated to M/FM. Therefore, any letter, written arrangement, or agreements regarding the acceptance and use of donations (other than travel expenses for AID employees) must be approved by M/FM. Travel expenses for AID employees must be approved by GC/EPA (see Handbook 22, Chapter 1.) However, prior to such approval, a determination under Section 635(d) of FAA must be prepared and approved by the appropriate Bureau Assistant Administrator or his/her designee. (See Appendix 4A of this Handbook.)

3. Recording Obligations

a. Foreign Disaster Assistance. Obligations for disaster relief which are evidenced by a letter signed by proper authority to the government of the country in which the disaster occurred and which sets forth a firm obligation by the U.S. Government of up to a specified amount as disaster relief assistance.

b. Country-Financed Technical Assistance. The same obligation procedures for operating-type expenses as provided in Section 2Fl above should be followed. However, it should be noted that trust funds are no-year funds.

c. Master Disbursing Account. Actually, obligations under this account are made in USAID accounts by ProAgs and earmarked by issued PIO/Ps. The technique of transfer of funds to this account as liquidation (disbursements) in USAID accounts is offset by the credit to the same appropriation account in AID/W. In the Agency report, no liquidation (disbursements) for the transfers will be reflected under the appropriation. After the actual payments for participant training costs are made from the Master Disbursing Account and distributed to the various appropriations, the Agency reports will reflect the liquidation (disbursements).

d. Gifts and Donations. The same obligation procedures for operating-type expenses as provided in 2Fl above should be followed.

CDT: 1977/08/02
EDT: 1987/03/26

2J. Budget Allowance Increases to Cover Valid Upward Adjustments of Obligations

1. Prior Year Funds

a. Unobligated balances of budget allowances (as well as unobligated balances at the Bureau allotment level) are withdrawn by AID/W's Central Accounting Division at the end of each fiscal year. No Advice of Budget Allowance or allotment is issued to document this withdrawal.

b. If an upward adjustment of a prior-year obligation (where the actual cost exceeds the estimate and no change in scope, purpose, or quality is included) is required, the following procedure is followed:

(1) Adjustments to a prior-year obligation are recorded even though such recording may result in negative balances in the budget allowance account and in the allotment account. An immediate and special appraisal is made of all unliquidated obligations in the same budget allowance account in which the upward adjustment is required to determine if reductions sufficient to cover the amount of the upward adjustment can properly be made in other unliquidated obligations. (See Section 2Jlb(4) below for adjustments exceeding $10,000.)

(2) Any negative unobligated balance (over obligation) remaining in the prior-year budget allowance account at the end of each month is shown on the Report No. U-101, Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts, and is explained under "Special Notes," by using one of the appropriate statements called for in Chapter 9 of this Handbook.

(3) Prior-year AID/W and USAID budget allowance accounts are automatically adjusted by the AID/W Central Accounting Division to the amount of the obligation reported in the monthly U-101 Reports. No Advice of Budget Allowance is issued to document this change. If appropriate, M/FM/CAD initiates the review procedure called for in Chapter 1 of this Handbook for possible violation of the Anti-Deficiency Act.

(4) Exception Reporting (AID/W and USAID)

An exception to the automated upward adjustment procedures presently in the U-101 reporting instruction for upward adjustments is required when the upward adjustment exceeds $10,000. When the need for a large upward adjustment occurs, it is necessary to notify M/FM/CAD before affecting payment by requesting a prior year budget allowance increase through the allottee. This request is to be in standard memorandum form, and includes statements that (a) the increase does not result in an increase of the total value of the project agreement; and that, (b) the increase is not the result of an "add-on" and is within the scope of the original contract. This request is to include a statement justifying the requested increase. Detail supporting documentation must be attached. This memorandum is to be initiated through the allottee or his/her designee for required approval/action. If USAID is involved, the request should include a cable for USAID notification similar to the cable notification presently in effect for current year increases and prepared by the regional controller in the cognizant bureau The distribution of the budget allowance increase should follow the same distribution procedures as current year budget allowances.

When in the opinion of the Chief, M/FM/CAD, the requested budget allowance increase may not meet the test of a valid upward adjustment; a review group shall convene to discuss the merits of the case. The review group shall consist of:

(a) Deputy Controller for AID/W Operations or Overseas --who is responsible for chairing the meetings;

(b) Chief, M/FM/CAD --member who is responsible for maintaining control over prior year appropriation accounts and ascertaining if the Agency has sufficient deobligated funds to cover the upward adjustment;

(c) Budget & Accounting Officer, M/FM/CAD --member, responsible for notifying the chief when a budget allowance request is submitted against prior-year accounts;

(d) USAID controller representative of the responsible accounting station; i.e., the Regional Bureau Controller of USAID funds; or the Chief of M/FM/PAFD, M/FM/WAOD, or M/FM/LMD for AID/W funds; and

(e) M/FM/ASD representative, to assist in establishing the meeting time and provide necessary guidance and advice as may be required for appropriate resolution within established M/FM policy. Upon approval by the M/FM review group, the budget allowance will be issued to provide funds available from cumulative deobligations in the prior-year appropriation account. If prior-year funds are not currently available, the accounting station will be notified as to the reason for delay. In no case should the payment or upward adjustment be delayed past the fifteenth day of the last month of the fiscal year, unless the upward adjustment results in the original appropriation authority being exceeded for the Geographic Bureau or the entire Agency.

2. Current-Year Funds

a. An adjustment to current year obligations is recorded and reported in the same manner as set forth in Section 2Jlb above for prior-year funds when the current budget allowance is insufficient to fund the increased costs.

b. A proposed "upward adjustment" in obligations for additional or higher quality goods or services (or for similar reasons) is the same as incurring a new obligation, and an amendment to the original obligating document is required charging current-year funds. Such proposed adjustments to current-year funds are not made until sufficient funds are available in the budget allowance account to cover requirements. If there are not sufficient funds available in the budget allowance account to finance the proposed obligation increase, the review of unliquidated obligation balances called for in paragraph 2Jlb(1) above is required to determine if reductions can be made in other unliquidated balances to cover the proposed increase. If such a review does not release sufficient funds, a request for an increase in the amount of the budget allowance is submitted to AID/W, through the allottee, accompanied by justification. The obligation document is not released to the proposed supplier, contractor, etc., until funds have become available and the document has been prevalidated for fund availability.

CDT: 1977/08/02
EDT: 1987/03/26

2K. Obligations During Periods of a Continuing Resolution

1. "Continuing Resolutions" are passed by the Congress when it is necessary to make funds available to AID on an interim basis pending enactment of the regular appropriation law for that year.

2. "Continuing Resolutions" usually provide that the obligational rate for operations may not be in excess of the rate for the year just ended or the rate provided in the budget estimates whichever is less. "Continuing Resolutions" provide funds for continuing projects or activities and may restrict obligations for new projects or activities. When a "Continuing Resolution" has been passed, allottees are advised of the provisions of the resolution and its applicability to AID by GC.

3. Upon receipt of telegram notice of passage of a "Continuing Resolution," accounting stations establish new fiscal year budget allowance accounts to be used during the interim period for recording obligations in the new fiscal year.

4. Officers who plan obligations for new projects or activities ascertain that such obligations are in accordance with the current "Continuing Resolutions" and the current Agency guidelines on operations under the "Continuing Resolution."

CDT: 1977/08/02
EDT: 1987/03/26

2L. Administrative Reservation of Funds

1. Recording

a. The term "Administrative Reservation" indicates that funds have been set aside to cover a planned obligation during the current fiscal year. They are used where necessary for internal control and informational purposes, and are primarily notices of availability of funds during the period an agreement is being negotiated or when another AID office or other U.S. Government agency is responsible for executing the obligating document.

b. Administrative reservations posted to a budget allowance ledger do not reduce the amount of the unobligated balance. However, reservations do encumber funds so that the allotment/budget allowance is not exceeded.

c. Administrative reservations are not reported in the monthly fiscal reports to AID/W.

2. Status at End of Fiscal Year

At the end of each fiscal year all administrative reservations against annual appropriations are terminated. If the need for funds continues into the next fiscal year and new year's funds are available, the implementing document is reconfirmed or reissued, as appropriate, citing the new year's fund and the new year document number. A new administrative reservation is established for the planned obligation against the New Year's availability.

CDT: 1977/08/02
EDT: 1987/03/26

2M. Review of Unliquidated Balances of Obligations

1. Each accounting station has unliquidated obligation balances under continuous review. A special intensive review is conducted at each mid fiscal year of all unliquidated obligations. The timing of this review is especially important to the AID planning process since resulting deobligations of prior-year funds can be reported to permit timely reallowance and orderly reobligations prior to the fiscal year end. A final review of unliquidated obligations is made at each fiscal year end to assure that recorded obligations are valid for the Agency Controller certification under the provisions of 31 U.S.C. 1501.

2. Each obligation document having an unliquidated balance, along with the related supporting documents, is examined to determine the validity of the unliquidated balance. Listed below are supplemental criteria to be used in conducting the review of unliquidated obligations:

a. Unliquidated balances of specific procurement documents that have terminal delivery dates which have expired by the close of the fiscal year are considered invalid to the extent the unliquidated amount exceeds the value of goods delivered and services performed for which payment has not been made.

b. When all the goods, services, or training under the obligating document have been received, any unliquidated balance in excess of the amount required to cover goods delivered and services performed for which payment has not been made is deobligated. For contracts/agreements, the closing out procedures as provided in CM Administrative Memorandum 85-7 dated November 12, 1985 should be followed.

c. Project Agreements contain time controls based on a date, i.e., the Project Assistance Completion Date (PACD) by which it is estimated that AID-financed project assistance will be complete, i.e., all services performed, and all goods furnished. The PACD provides a positive (but not automatic) reference point for concluding AID assistance by stating that, except as it may otherwise agree, AID will not issue or approve documentation which will authorize services to be performed or goods to be furnished after the PACD. Amounts obligated which are not needed to pay for goods and services delivered by the PACD as amended are considered invalid and are subject to deobligation.

d. When the project implementation has not progressed on schedule, consideration is given to renegotiating the agreement and adjusting the obligation downward as required.

3. In those cases where the review discloses that all or a portion of the unliquidated balance is invalid and should be deobligated, a journal voucher or other accounting document is prepared, approved, and processed prior to closing the accounts and preparing the fiscal year-end reports. Large amounts are discussed with the budget allowee, the contract office and/or other responsible officers.

4. When the review discloses a transaction, under an obligation whose validity is questionable and cannot be resolved by the USAID, a complete report of the facts is presented through the USAID controller to M/FM in AID/W. M/FM determines whether the question(s) raised can properly be answered by AID/W or whether the case should be referred to the Comptroller General of the United States for decision.

CDT: 1977/08/02
EDT: 1987/03/26

2N. (Recoveries Deobligations) and (Reobligations DEOBS/REOBS)

1. Current Year Funds

A recovery through deobligation of a current-year fund obligation increases the unobligated balance of the appropriation account and as such is immediately available for use for the purposes for which the appropriation was made.

2. Prior Year Funds

a. A recovery through deobligation of prior-year funds increases the unobligated balance of the budget allowance account. Unobligated balances of prior-year budget allowances are automatically withdrawn as of the end of each month by M/FM based upon information shown on the monthly U-101 reports. No Advice of Budget Allowance, form AID 740-3, is issued to document this adjustment. Prior-year funds recovered are not automatically available for re-obligation by either the allowee or the allottee, except for valid upward adjustments of prior-year obligations required during the reporting period.

b. Authority to utilize prior-year funds recovered (deobligated), for other than upward adjustments rests upon specific Congressional authorization in individual appropriation acts. Within this authority, funds are made available to allottees pursuant to Agency allotment procedures.

CDT: 1977/08/02
EDT: 1987/03/26

2O. Liquidation and Deobligation

1. Liquidation by Expenditure or Disbursement

a. To provide financial data (e.g. unliquidated obligations, expenditures, liabilities, etc.) on an accrued expenditure basis, an inventory of accruals for goods delivered and services performed for which payment has not been made is taken monthly, except as otherwise specifically authorized. The amount of the accrual inventory is entered as an expenditure with a corresponding liquidation of obligations at the end of the accounting period. The accrual entry is reversed as of the beginning of the succeeding accounting period.

b. In addition to the techniques indicated in Section 2F1a above, obligations are liquidated by one or more disbursements for the purpose for which the obligation was established. Disbursements by offices other than the office maintaining the budget allowance account are reported by an Advice of Charge (form AID 7-148 or form AID 7-46) to that accounting office.

c. When it is determined that the unliquidated balances exceed the funds required, prompt deobligation action is taken. Therefore, only minor adjustments are required upon receipt and disbursement of the final payment vouchers.

2. Liquidation Record

A liquidation record is maintained for each obligation document to reflect payment and/or adjustment of the obligation. The information in this record provides a basis for final deobligation when all expenditures have been completed and for periodic adjustment during the Section 1311 reviews of obligations. Example of liquidation records that are used are the "Miscellaneous Obligation Document" (Attachment 2A) and "Commitment Liquidation/Control Record" (Attachment 2B).

CDT: 1977/08/02
EDT: 1987/03/26

2P. Reporting Under Section 1311 of Supplemental Appropriation Act of 1954 [31 U.S.C. 1501]

1. The Agency Controller certifies for AID that the statement of obligations submitted each year to the Office of Management and Budget consists of valid obligations as defined in 31 U.S.C. 1501.

2. The certification by the Agency Controller of AID's overall report is made on the basis of a special certification by USAID controllers and M/FM division chiefs in AID/W, on their year-end Report No. U-101, Summary of Allowance Ledger Transactions and Reconciliation with Disbursing Officers Accounts, on the SALT Report No. U-106 for U.S. Owned Local Currency, and on certifications by other agencies having direct allocations from AID. Following is the statement affixed to U-101 and U-106 year-end reports:

> "I hereby certify that the amounts shown in this report are supported by the documentary evidence required by Section 1311 of Public Law 83-663, approved August 26, 1954 [31 U.S.C. 1501].
>
> /s/______________________________________"
> (Name) (Date)

3. The reports and certifications are supported by records retained in each USAID and Washington office in a manner, which facilitates audit and reconciliation.

CDT: 1977/08/02
EDT: 1987/03/26

Attachment 2A: Miscellaneous Obligation Document

CDT: 1977/08/02
EDT: 1987/03/26

Attachment 2B: